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FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS

Implementation of the recommendations of the Board of Auditors in its report for the period ended 31 December 1991 1/

Report of the Secretary-General

INTRODUCTION

1. The General Assembly, in paragraph 9 of its resolution 47/211 of 23 December 1992, noted with concern the findings of the Board of Auditors, and requested the Secretary-General and the executive heads of United Nations organizations and programmes:

> "(a) To strengthen budgetary control in order to avoid over-expenditure of approved budgets or allotments;
>
> "(b) To make purchasing policy on the acquisition of goods and services more cost-effective and transparent, inter alia, by reducing the number of exceptions to competitive bidding and ensuring that the reasons for such exceptions are recorded in writing;
>
> "(c) To give priority attention to compliance with the recommendations of the Board of Auditors on the hiring, granting of remuneration and performance evaluation of experts, consultants and personnel engaged on a short-term basis;
>
> "(d) To install a more effective system of managing and controlling the granting of allowances and benefits to staff members;
>
> "(e) To tighten control over the inventory of non-expendable property in all locations, including peace-keeping operations;
>
> "and to report on these matters to the General Assembly at its forty-eighth session."

2. In paragraph 10 of the same resolution, the General Assembly reaffirmed "the importance of timetables for compliance with recommendations of the Board of Auditors approved by the General Assembly", and requested "the Secretary-General and the executive heads of United Nations organizations and programmes to submit to the General Assembly at its forty-eighth session, through the Advisory Committee on Administrative and Budgetary Questions at its spring session in 1993 and through the appropriate intergovernmental bodies, an action-oriented report outlining steps to be taken in response to the recommendations of the Board including timetables for their implementation".

3. The present report has been prepared in response to these requests in resolution 47/211. The information contained in this report was submitted in the first instance to the Advisory Committee on Administrative and Budgetary Questions; the comments by the Advisory Committee were taken into account in the preparation of this report.

4. The areas of concern highlighted in paragraph 9 of resolution 47/211 are addressed in the body of the present report. Information is provided on measures already taken or to be taken to implement the pertinent recommendations by the Board of Auditors, including a timetable where relevant. Where this would facilitate the understanding of the situation referred to by the Auditors in their recommendations, a fuller explanation of the circumstances and issues concerned is also provided. Additional matters raised in the report of the Board of Auditors are addressed in the annex to this report.

Request to strengthen budgetary control in order to avoid over-expenditure of approved budgets or allotments (para. 9 (a) of General Assembly resolution 47/211)

5. This request from the General Assembly corresponds to the recommendation in paragraph 10 (a) of the Board's report, which reads as follows:

> "There should be closer monitoring of expenditures to ensure that these are within the appropriations voted and the allotments issued."

6. In paragraph 78 of its report, the Board stated that "expenditures exceeded appropriations". In its comments to the Auditors, management reiterated that expenditures incurred were within the amount of the commitment authority approved by the General Assembly in resolution 46/184. That resolution authorized the Secretary-General to commit a net additional amount of up to $13,867,100, with the prior concurrence of the Advisory Committee on Administrative and Budgetary Questions, in respect of the regular budget for the biennium 1990-1991. The additional amount committed, to which the Advisory Committee gave its concurrence, was $11,971,200 - a figure well within the amount authorized.

7. In paragraph 81, the Board recommended that expenditures should be incurred only within the appropriations voted and the allotments issued. Management agrees with this recommendation and is taking steps to ensure compliance. Procedures are being designed under the Integrated Management Information System (IMIS) that will ensure that obligations are not accepted if funds are not available. Given the phased implementation of IMIS, such procedures are

expected to be in place at Headquarters by June 1994 and approximately one year later in offices away from Headquarters.

Request to make purchasing policy more cost-effective and transparent, inter alia, by reducing the number of exceptions to competitive bidding (para. 9 (b) of General Assembly resolution 47/211)

8. This request coincides with a portion of the recommendation in paragraph 10 (q) of the report of the Board of Auditors, in which the Board recommended:

> "Policies on procurement, bidding, and non-expendable property should be reviewed for better delivery of services."

Bidding as an exception

9. Policies on bidding and on exceptions to bidding are clearly established in the Financial Regulations and Rules of the United Nations. Financial rule 110.18 reads as follows:

> "Except as provided in rule 110.19, contracts for the purchase or rental of services, supplies, equipment and other requirements shall be let after competitive bidding or calling for proposals. Tenders shall be invited by advertising through publication or distribution of formal invitations to bid; provided that in cases where the nature of the work involved precludes invitation of tenders and where proposals are called, a comparative analysis of such proposals shall be kept on record."

10. Financial rule 110.19 provides that:

> "Contracts may be awarded without calling for proposals, advertising or formal invitations to bid when:
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> "(a) The proposed contract involves commitments of less than $20,000 in the case of United Nations Headquarters, the United Nations Office at Geneva, the United Nations Office at Vienna, the United Nations Environment Programme and the United Nations Centre for Human Settlements, and $5,000 in the case of the United Nations regional commissions, provided that the award is made after an assessment of competitive quotations, based on conformity with specifications, delivery schedules and prices or comparative prices, where available;
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> "(b) The prices or rates are fixed pursuant to national legislation or by regulatory bodies;
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> "(c) A standardization of supplies or equipment has been approved on the advice of the Committee on Contracts which renders competition impracticable;
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> "(d) The exigency of the service does not permit the delay attendant upon the issue of invitations to bid or the calling for proposals;

"(e) The contract relates to the purchase of proprietary articles or perishable supplies;

"(f) The proposed contract relates to professional services other than staff services;

"(g) The proposed contract relates to medicines, medical supplies, hospital or surgical supplies or prosthetic appliances;

"(h) The Assistant Secretary-General for General Services or such other official authorized under rule 110.16 determines that competitive bidding or calling for proposals will not give satisfactory results. In such cases, appropriate reasons shall be recorded in writing."

11. The United Nations rules regarding procurement are similar to, and consistent with, those of a number of Member States. Specifically, criteria for exceptions to bidding, such as those outlined above, are not unique to the United Nations. They are necessary for the efficient provision of goods and services.

12. For the 1990-1991 biennium, of 1,168 contracts with a value greater than US$ 20,000,407, or 34.9 per cent, were entered into following a review of competitive bids. In 1992, of 965 contracts with a value greater than $20,000,394, or 40.8 per cent, were entered into following a review of competitive bids. The remainder were not subject to competitive bidding, as they fell within the categories established in financial rule 110.19 which are exempt from competitive bidding. Moreover, every purchase order contains information on the justification for the exception to competitive bidding under one of the categories set forth in financial rule 110.19.

Inadequate specifications resulted in incomparable bid proposals

13. In paragraph 234 of its report, the Board recommended that a thorough review be made of proposed projects before final submission for bidding and that the in-house capacities in the preparation of cost estimates, project drawings and specifications and evaluations of proposals be adequately strengthened. A process will be initiated at the beginning of 1994 whereby every proposal valued at over $100,000 will be submitted to an outside evaluation for adequacy. A list of experts that can be retained for this purpose is presently being compiled.

Request to install a more effective system of managing and controlling the granting of allowances and benefits to staff members (para. 9 (d) of General Assembly resolution 47/211)

14. This request from the General Assembly corresponds to one of the recommendations in paragraph 10 (h) of the Board's report, which reads as follows:

"... A more effective system of managing and controlling the granting of allowances and benefits should be installed ..."

15. In so far as the observations of the Board of Auditors related to the processing of requests for education grant or education grant advances, it should be noted that no education grant was paid without submission by the staff member of a certificate of attendance from the educational institution concerned. Moreover, the average processing time for this benefit was two months from the date of receipt of the claim, as provided in the administrative instruction on this subject. Delays in processing noted by the Auditors were caused by the failure of the staff members concerned to submit properly completed documentation, which required the Office of Human Resources Management (OHRM) to follow up with the individuals involved in order to obtain such documentation.

16. The Board had urged that immediate measures be taken to address the deficiencies noted in the granting and processing of allowances and benefits and had recommended that the Internal Audit Division (IAD) carry out an evaluation of the procedures used. In April 1993, IAD conducted an audit of the education grant processing procedures used by OHRM. At the suggestion of IAD, a checklist has been prepared by OHRM, which will strengthen internal control procedures and facilitate the processing of claims.

17. As regards the general issue of internal controls relating to the payment of allowances and benefits, as indicated in a document on this and associated subjects submitted to the General Assembly in October 1992 (A/47/510), the Secretary-General considers that "the desired balance between the timely provision of services and concern for internal controls can best be maintained by advancing computerization in the context of IMIS, rather than by implementing labour-intensive manual procedures which can only produce limited results".

Request to give priority attention to compliance with the recommendations of the Board of Auditors on the hiring, granting of remuneration and performance evaluation of experts, consultants and personnel engaged on a short-term basis (para. 9 (c) of General Assembly resolution 47/211)

18. This request from the General Assembly corresponds to the recommendation in paragraph 10 (p) of the Board's report, which reads as follows:

> "Administrative instructions on the hiring, granting of remuneration and performance evaluation of experts and consultants should be strictly adhered to."

19. Based on a review of the recruitment of experts and consultants in two departments, one of which focuses on the provision of advisory services and project experts to Governments, the Board had noted that, in many instances, only one proposed candidate was considered. The Board recommended that management provide sufficient lead time in the recruitment of consultants and that it increase its efforts to include in the panel of candidates those deemed most qualified for the specific assignment.

20. As regards the provision of advisory services and project personnel to Governments, it should be noted that, in close to 40 per cent of all cases, requesting Governments express their preference for a specific candidate. Furthermore, the persistent pressure to appoint consultants and experts at very short notice has resulted in the reliance, in many cases, on a narrow field of

candidates to meet recruitment needs. Management fully agrees with the Board's recommendation that there should be sufficient lead time in the recruitment of consultants and experts and, with some reservations, also agrees that the names of several candidates should be submitted, even when requesting Governments have indicated their preference for a particular individual.

21. In October 1992, the Board's observations were brought to the attention of all Directors in the Department responsible for technical cooperation activities, with a view to exploring measures to address the issues raised. At the same time, the Directors of the Department were requested to endeavour to broaden their recruitment basis for experts and consultants. While management is seeking to recruit more nationals from developing countries and more women, it should be borne in mind that the increased recruitment of candidates from these categories requires the cooperation of the recipient Governments.

22. The Board had pointed out that some experts and consultants were repeatedly rehired for total periods of up to eight years. Management considers these to be isolated cases, generally caused by factors specific to the recipient country.

23. Staff members of the Department responsible for technical cooperation activities have been requested not to sign Special Service Agreements after work has commenced. A reminder has been circulated to all programme managers informing them of their collective responsibilities to ensure that no individual commences work until the administrative requirements are met. Programme managers have also been informed that requests for the ex post facto approval of consultant contracts will not be entertained.

24. OHRM has issued a reminder to all executive and administrative officers at Headquarters and all chiefs of administration and personnel at offices away from Headquarters, to observe scrupulously all administrative instructions on the hiring, remuneration and performance evaluation of experts and consultants, and to instruct all concerned within their departments or offices accordingly. The monitoring of compliance with these instructions will be facilitated by a computerized system recently developed by OHRM. This system will also enable reports to be issued more quickly and efficiently than in the past on factors such as the qualifications of the experts and consultants recruited, the level of remuneration of consultants and the duration of appointments. While this system was initially designed for use at Headquarters, copies are being made available to duty stations that have the required computer capabilities. The introduction of IMIS will also facilitate the monitoring of Special Service Agreements at other duty stations.

Request to tighten control over the inventory of non-expendable property in all locations, including peace-keeping operations (para. 9 (e) of General Assembly resolution 47/211)

25. This request coincides with the recommendation in paragraph 10 (q) of the report of the Board of Auditors, wherein the Board recommended:

> "Financial control and accountability for all United Nations property should be instituted."

The Board also recommended, in recommendation 10 (w) of its report:

> "Appropriate measures should be taken to ensure adequate recording, monitoring and reporting of non-expendable property held by all field missions."

Definition of non-expendable property

26. The Board, in paragraphs 256 and 257 of its report, considered the issue of property management and expressed concern about the identification of those items requiring accountability. Administrative Instruction ST/AI/374 of 16 January 1992 addresses the establishment of standards for control of non-expendable property. This administrative instruction defines non-expendable property as follows:

> "Non-expendable property consists of items of property or equipment valued at $1,500 or more per unit at the time of purchase and with a serviceable life of five years or more."

27. "Expendable property" was operationally defined in ST/AI/374 as items with an original purchase cost of less than $1,500 or items with an original purchase cost of $1,500 or more but with a serviceable life of less than five years.

28. Within the parameters of the term "expendable property", ST/AI/374 identified certain "special items", for which property records and controls are to be maintained. These items are defined as:

> "Property considered to be of an attractive nature and having a minimum value of $500 or more" and
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> "Property issued against property receipts".

29. These property records are being kept by the respective departments and offices. There is, however, a need to clarify definitions. As many items previously considered "special" are becoming "normal", records are being reviewed to ensure that those identified as "special" require that designation.

30. In paragraph 260 of its report, the Board noted deficiencies in the physical inventory of non-expendable property conducted at Headquarters in December 1991. Data not available at the time of the inventory conducted in December 1991 have since been included, so that the inventory is now up to date.

No policy on charge-back of expendable property

31. The Auditors expressed concern that there were inconsistencies in the application and accounting treatment regarding the charge-back for expendable property. The systems contract with a contractor supplying office equipment and supplies was established to simplify the procedure of obtaining office supplies and to make it more efficient by obtaining supplies more quickly, more cheaply and without the need to maintain large stocks at the United Nations. For this purpose a global account was established, under the custody of the Commercial, Purchase and Transportation Service (CPTS) in the Office of General Services (OGS), against which offices of the Secretariat could draw their standard office

requirements. Their needs were, therefore, taken into account in the allocation. Efforts are being made to monitor consumption by departments and to bring any undue increases of expendable supplies requisitioned to the attention of the respective Executive Offices for appropriate action.

Inadequate property control of the former Department of Technical Cooperation for Development projects in field offices audited

32. In response to the Board's identification of deficiencies in property controls in the audited field offices, the Department responsible for technical cooperation, formerly the Department of Technical Cooperation for Development, took action in Bangladesh, Mozambique and Pakistan to ensure that equipment is properly marked, listed and the inventory cards updated. Field offices will be reminded of these procedures.

33. In relation to the transfer of equipment to recipient Governments, two cases remain outstanding and actions continue in an effort to finalize the transfer of that equipment to the recipient Government.

Property accountability in field missions

34. With regard to property accountability issues identified in field missions, 23 of 27 missions have provided Headquarters with inventory reports of non-expendable property. The remaining four missions are currently completing their inventories and it is expected that reports will be submitted by the end of this year.

35. Consultations continue with Member States concerning the valuation of contingent-owned equipment. Management intends to hold a series of meetings with the contributing Governments, with a view to presenting a consensus document to the Advisory Committee on Administrative and Budgetary Questions and to the General Assembly for approval.

Notes

1/ Official Records of the General Assembly, Forty-seventh Session, Supplement No. 5 (A/47/5).

ANNEX

Recommendations	Actions completed	Actions under way	Comments
1. "The guidelines for the Acceptance, Valuation, Safe-keeping, Use and Possible Monetization of Contributions-in-kind to Operation Salam should be immediately implemented in the United Nations Office of the Coordinator for Humanitarian and Economic Assistance Programmes relating to Afghanistan (UNOCA)." Rec. 10 (b)	Guidelines have been issued. This has been noted by the Board of Auditors.		
2. "UNOCA should establish criteria for a firm commitment to be considered a confirmed pledge and recorded in the accounts." Rec. 10 (c)			The Financial Regulations and Rules provide guidance as to which commitments should be recorded.
3. "More effective cash management should be adopted, particularly on the formulation of investment policy and the levels of balances maintained for cash at banks." (Rec. 10 (d)	An investment policy was approved by the controller in June 1993.	Treasury is reorganizing and restructuring primary bank accounts and improving cash forecasting. This process began in fall 1993 and should be completed in spring 1994.	

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Recommendations	Actions completed	Actions under way	Comments
4. "The authorization for the advances made to the United Nations Institute for Training and Research (UNITAR) must be sought from the General Assembly." Rec. 10 (e)	The General Assembly, in resolution 47/227 dated 8 April 1993, accepted the Secretary-General's proposal that the United Nations take over the UNITAR building in New York in return for the cancellation of the debt and coverage of the financial obligations for 1992 and the transitional phasing-out costs for the first half of 1993.		
5. "It should be explicitly established if and to what extent the Office of the United Nations Disaster Relief Coordinator (UNDRO) may deviate from United Nations administrative instructions." Rec. 10 (f)	The Department of Humanitarian Affairs (DHA) Geneva office (formerly UNDRO) may not deviate from United Nations administrative instructions and now complies with those instructions.		
6. "The Economic Commission for Africa (ECA) should strengthen its internal and accounting controls." Rec. 10 (g)	A new Chief of the Budget and Finance Section has been appointed at ECA. New internal controls have been introduced and existing controls and procedures have been reinforced. Cash payments to staff have been discontinued. The		

Recommendations	Actions completed	Actions under way	Comments
	ECA Cashier, who now reports directly to the Chief of the Budget and Finance Section, has been instructed not to prepare cheques for general use in the name of any finance officer.		
7. "Deficiencies in the staffing table system should be evaluated and improvements made. In the United Nations Office at Geneva, staff levels should be brought in line with authorized post levels. In the Economic Commission for Africa (ECA), the organizational structure should be streamlined. Regular assessments of manpower requirements should be conducted at the United Nations Office at Geneva and ECA." Rec. 10 (i)	The Department of Administration and Management (DAM) has initiated a procedure whereby data generated from selected personnel action forms (P.5) is transferred to the payroll system without further manual data entry by the Payroll Unit of the Accounts Division.	Efforts continue to regularize the situation of staff members in Geneva whose current grade is higher than the post they occupy. A proposed restructuring of divisions at ECA includes a recommendation to reduce the number of divisions from 11 to 9. This is based on a functional regrouping of programmes and activities that will allow for more clearly defined responsibilities and greater managerial control. Plans are under consideration for an in-depth review of the United Nations Office at Geneva in the near future. At ECA, the aforementioned	

Recommendations	Actions completed	Actions under way	Comments
		restructuring will address the issue of manpower requirements.	
8. "The quantity and quality of staff resources of the Internal Audit Division (IAD) should be strengthened in order to ensure adequate audit coverage. Audit planning should be improved. Internal audit findings and recommendations should be given proper response. Potential conflicts of interest should be avoided." Rec. 10 (i)	Several extrabudgetary posts funded from the peace-keeping support account have been added to the Division. IAD has assigned a number of auditors specifically to the audit of activities related to peace-keeping operations. The Under-Secretary-General for Administration and Management (USG/AM) issued clearly defined guidelines to all heads of Departments and Offices and Offices away from Headquarters establishing time-limits for issuance of audit reports by IAD and transmission of responses thereto by programme managers.	The Assistance Secretary-General for Inspections and Investigations is undertaking an examination of deficiencies in audit planning both at Headquarters and at Geneva, with a view to ensuring that corrective action is taken quickly. Steps are being taken to ensure that IAD staff will not serve on United Nations staff bodies or staff/management committees that might create possible conflicts of interest.	
9. "The build-up of unnecessary administrative functions in addition to those already available should be avoided when	Revised estimates for the biennium 1992-1993 reflect efforts to eliminate unnecessary administrative structures.		

Recommendations	Actions completed	Actions under way	Comments
establishing any new institutions. Programme management performance reporting as well as timely implementation of projects should be improved. The organizational and personnel structure of the Centre for Social Development and Humanitarian Affairs (CSDHA) should be reviewed." Rec. 10 (k)	A report by the Secretary-General reviewing main systems of accountability and responsibility, assessing those systems and drawing conclusions concerning strengthening managerial accountability and responsibility (A/48/452) has been prepared for consideration by the General Assembly at its forty-eighth session. Certain organizational units within CSDHA have been redeployed.		
10. "ECA should strengthen and improve the supervision and coordination of its multinational programming and operational centres (MULPOCs) and substantially improve programme management." Rec. 10 (l)		A review of staffing of the MULPOCs is being conducted. Deficiencies in programme outputs are being addressed as part of the restructuring of ECA. Standards of office accommodation are being reviewed.	The issue of office location is dependent upon the views of host countries.

Recommendations	Actions completed	Actions under way	Comments
11. "The publication of the 'Human Rights Newsletter' should be reconsidered." Rec. 10 (m)	The publication of the Newsletter has been temporarily suspended.	The Centre for Human Rights is reconsidering the advisability of continuing to produce the Newsletter in its existing format.	
12. "Policy guidelines on the proper disposition of long outstanding accounts receivable and payable should be established." Rec. 10 (n)		Guidelines are presently under consideration that will include a standard timetable for follow-up steps required in attempting to dispose of these accounts as well as a time-limit for the submission of a recommendation to write-off accounts receivable where collection attempts prove unsuccessful.	
13. "Budgetary controls for general and technical cooperation trust funds and the corresponding programme support costs should be improved and performed in accordance with relevant administrative instructions." Rec. 10 (o)	Periodic reviews of trust funds are conducted and, where possible and appropriate, steps are taken to close them. Detailed cost plans have been prepared that serve as the basis for allotments for technical cooperation trust funds.		

Recommendations	Actions completed	Actions under way	Comments
14. "Policies on procurement, bidding and non-expendable property should be reviewed for better delivery of services. Financial control and accountability for all United Nations property should be instituted." Rec. 10 (q)	Delays in deliveries have been addressed by providing suppliers more realistic delivery schedules and intensifying follow-up actions.		Receiving and Inspection reports (RIRS) are not applicable to construction projects or consultancy services. Depending on the method of shipment, other forms of proof of delivery are provided for.
(The aspects of recommendation 10 (q) which are not discussed in the narrative portion of the report are addressed here.)	The company providing office supplies to the United Nations is now required to submit only those reports considered useful in the management of the systems contract and to ensure that these reports are received.		
15. "The system and procedures in the selection and monitoring of performance of fellows at the Fellowship Service need to be improved." Rec. 10 (r)	Resident Representatives have been reminded to comply with requirements concerning the submission of evaluations. Fellows are now being notified of their responsibility to comply with requirements to submit progress reports and a final report.	Governmental authorities are being reminded to submit nomination forms by the established deadline.	

Recommendations	Actions completed	Actions under way	Comments
16. "The integrated management information system (IMIS) should be continuously developed and reformulated to incorporate recent developments and policies." Rec. 10 (s)		IMIS is being implemented on a continuing basis. The fifth progress report on the development of IMIS will be submitted to the General Assembly during its forty-eighth session.	
17. "The role, functions and responsibilities of the Field Operations Division (FOD) as well as its functional relationship with other offices involved in the peace-keeping process should be clearly determined, based on the growing requirements of peace-keeping operations." Rec. 10 (t)	On 13 September 1993, the Secretary-General issued Secretary-General's Bulletin ST/SGB/264, which announced the incorporation of FOD into the Department of Peace-keeping Operations (DPKO) effective 1 September 1993.	A description of the functions and organization of DPKO in light of this change is forthcoming.	
18. "The retention of unliquidated obligations in the accounts as outlined in financial regulations 4.3 and 4.4 should be based on the accounting period of each field mission rather than on the biennium." Rec. 10 (u)	The staff of the Field Finance and Budget Section of FOD, as well as those in other relevant sections of FOD, have been instructed to comply with this recommendation.		

Recommendations	Actions completed	Actions under way	Comments
19. "The efforts of all the offices involved in the procurement of goods for peace-keeping activities should be adequately coordinated to expedite the procurement process." Rec. 10 (v)	The Director, FOD, has set up a Planning and Coordination Section to ensure that mission procurement needs are identified before the start of a mission.	Implementation of IMIS will permit communication by computer between FOD and the Commercial, Purchase and Transportation Service (CPTS). Further discussion concerning the possibility of depreciating inventories is required.	